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The article traces the historical development and peculiarities of (West) German capitalism and the place of consensus within the ideological superstructure. New state and employer offensives against labour are recorded and analysed and the resultant crisis of labour relations is discussed. The author argues that employers are, as yet, unwilling to launch a full frontal attack on co-determination.

# The Crisis of Labour Relations in Germany

by Martin Upchurch

## Introduction: *Modell Deutschland* under Competitive Stress

It is generally agreed amongst academic commentators that the combined pressures of increased international product market competition, market deregulation and unification have severely strained the German 'model' of industrial relations (e.g. Goodhart, 1994; Carlin and Soskice, 1997; Gall, 1997; Streeck, 1997). Employers' fear of the relative decline of German industrial competitiveness have prompted some rethink of the continued value of regulated collective bargaining. A fragmentation of previous patterns of collective bargaining is taking place which can usefully be described as a process of regulated decentralisation of pay determination. Active neo-liberal economic agendas, associated as they are with market deregulation, have entered German *Realpolitik* somewhat later than competitor nations, with some commentators (e.g. Marsh, 1996) suggesting that the difficulties of unification acted to delay an overdue process of restructuring of German industry. Restructuring, however, is now very much in evidence in the German case, as witnessed by large scale job losses, permanently high levels of unemployment and moves to introduce Anglo-Saxon 'shareholder' values at the expenses of traditional 'stakeholder' values associated with the German 'consensus' model.

Whilst there is general agreement that the model is under 'strain', opinion is divided as to its (the model's) future. Streeck (1997), for example, argues that the institutions of the model are more favourable to closed rather than open economies and that international market deregulation has exposed the model which, in effect, has now 'exhausted' its usefulness. The high wage, high skill and relatively low wage disparity which are modern features of the model aimed at diversified quality production are also considered less useful in a world market more inclined to price rather than quality sensitivity. Burton and Hansen (1993) also point out an historical weakness of the model of a tendency to respond relatively slowly in international comparative terms to newer technologies. Herrigel (1994) cites the machine tools industry as a prominent example whereby CAD Design technology was introduced much later into the West German sector than in Japan or the USA, largely because of 'jurisdictional battles'.

At the other extreme are commentators such as Sesselmeier (1991) and Koch (1995) who argue the case that the model is elastic enough to accommodate new external and internal pressures, and that this elasticity is indeed the key source of the model's strength. There is also evidence of a more strategic innovation and research policy emanating from the state designed to correct some earlier recognised deficiencies (Cantwell and Harding, 1998; Weiss, 1998). A third view (Goodhart, 1994; Tüselmann, 1996; Teague, 1997), proposes that the model is now in a state of flux and caught between countervailing pressures. On the one hand consensus decision making, based as it is on strong worker and employer associability, can continue to deliver benefits to the employer in terms of reduced conflict and a productivity coalition. On the other hand, there is a perceived need for increased employer flexibility both to hire and fire and determine wage costs and working arrangements at more localised or enterprise based levels which will continue to disturb and upset labour and hence 'commonality' of interest.

Trying to see the wood from the trees in these debates is no easy task. Most of the academic comment correctly concentrates on analysing statistical trends and placing them within some context and perspective. However, two problems remain. First, many of the 'trends' are countervailing and so open to a variety of interpretation. For example, the decentralisation and

fragmentation of bargaining witnessed in the late 1990s in the key German auto industry has been accompanied with a general revival of manufacturer's profitability and market share.<sup>1</sup> Does this paradox mean that the model is working as efficiently as ever or does it mean that profitability has been revived as a direct result of the collapse of certain aspects of the model? Similarly the fact that the institutional structures of co-determination have been successfully transferred to the east would suggest that the model is indeed acceptably flexible to absorb new strains and pressures. On the other hand Matthies *et al* (1994), Martens (1994), Upchurch (1995) and Hyman (1996) have highlighted the difficulties of transference given the different norms of workplace behaviour and levels of associability evident in the old east.

Second, in terms of 'balanced' analysis, it needs to be recognised that authors' conclusions on the debate will continue to be shaped and clouded by their perspective. Those of neo-liberal persuasion will be keen to reinforce and rehearse some of the earlier institutional 'sclerosis' debates highlighting the legal rigidities and alleged over-regulated aspects of the model. Others, who are close to the social democratic tradition, will be inclined to exhibit political support for the consensus system and the associated privileges afforded to trade union leaderships (who have most to lose from a collapse of the model in terms of role and social status).<sup>2</sup> Alternatively, those commentators of more leftist and oppositionist persuasion (of which this author is one), whilst critical of employer offensives against organised labour, would nevertheless be critical of the more collaborative aspects of the model. The preference here, would be to emphasise the value of a return of conflictual class relations, echoing the spirit of criticism of Works Councils' first expressed in the early writings of Bergmann and Müller-Jentsch (1975: 75) when they claimed that the 1952 Works Council Act '...consolidated the power of the entrepreneur and evicted the trade unions from the plant'.

The purpose of this paper is to attempt to place these debates within a theoretical framework drawing on Marxist analysis of both longer term trends in German capitalism as well as recent data. The prospects of institutional breakdown or crisis are assessed with respect to the contradictory elements of change and continuity taken from a range of indicators that are

considered central to the German 'model'. In particular reference is made to decreasing employer associability and attachment to the discipline of collective bargaining; to separate developments in the east since Unification and their impact on the pan-German scene; and finally to the volume and qualitative nature of industrial disputes in the late 1990s. The dialectical relationship between such developments and longer term restructuring of German capital is also considered. The author concludes with an analysis of the 'crisis' of labour relations, and infers that there are contradictory pressures on German employers which are leading to some questioning of the continued value of a 'consensus' approach to labour relations. The recent election of an SPD-Green coalition has also reshaped agendas, and these are considered in parallel to the tensions apparent within both capital and labour.

### **'Consensus' as ideological superstructure within German Capitalism**

The (West) German post war 'political settlement' as Streeck (1997: 39), has observed, had by the early 1980s become the only settlement between capital and labour in a major economy that remained intact. Collective bargaining was near universal and regulated by national law. Even in plants or enterprises where employer or employee associability was absent the legal extension of agreements ensured its widespread coverage. The market position of firms in the trading sector was secured and maintained by a 'productivity coalition' conducted at the level of the Works Council which provided in international terms relatively high wages based on market payment for high levels of worker skills. A high degree of functional flexibility was secured by a vocational training system overseen by the Chambers of Commerce and their equivalents. Indeed the institutional mix of the model has been based very much on an incrementalist approach to product innovation, whereby private intermediary institutions carry the task of diffusing best practice and technology while the state adopts an enabling but nevertheless 'hands off' approach based on German post war 'ordo-liberal' thinking (Weiss, 1998). This is in contrast to the more interventionist state associated with the Swedish social democratic model or the Japanese business welfare model.

The social nature of these institutions is accompanied by the other pillar of 'consensus'—that regarding the collaborative nature of industrial relations and the social legitimation given by the state to trade unions and worker representation. Industry based unionism, established in the occupation years under British Labour Government influence and brokered by the TUC, also lessened 'threats' of union based demarcation of jobs. Indeed the trade unions have generally been regarded as positive contributors to the model by those commentators keen to point out Germany's competitive advantages (e.g. Streeck, 1984), in contrast to the more obstructionist role usually ascribed especially by market liberals to British trade unions (e.g. Hayek, 1984). The unions were, of course, given protected status in law and rights to co-determination in the larger enterprises and industries in return for a 'peace obligation' which institutionalised the strike weapon as a 'last resort' and effectively outlawed unofficial action. The trade union leaderships themselves have generally policed the rank-and-file through self imposed restrictive strike balloting rules requiring up to 75 per cent positive support before calling action. In the rare times when oppositionist and rank-and-file activity gathered pace, as in the late 1960s and early 1970s, the trade union leaderships were quick to discipline and expel recalcitrant members (Miller, 1982). The ensuing 'productivity coalition' also had the by-product of creating relatively low income disparity, as the acquisition of skills guaranteed appropriate payment through the collective agreements and the competitive 'success' of the model in securing sales of its products in both domestic and foreign markets produced relatively low levels of unemployment. The 'consensual' nature of the model has also been associated with the system of corporate governance (e.g. Lane, 1989), whereby long term finance was mostly provided by regionally based banks, who, in return for a seat on the supervisory board of a company, sought to influence corporate strategy towards the achievement of greater market share (and hence stability) rather than short term shareholder gain. West German industry, including some of the major players, also has a much higher proportion of companies in family ownership than was the norm in the 'Anglo-Saxon' world, again reinforcing long termism and a generally more paternalistic approach to employees through the deliberate creation of a so-called *Betriebsgesellschaft* (factory community).

Whilst the West German economy was growing faster than its rivals and profitability was maintained the value of consensus to employers was useful as an ideological tool against the alternative to the east. It was also useful as a weapon in seeking competitive advantage as worker discontent could be bought off by wage payments supplemented in bonuses and top ups at the level of the enterprise beyond that agreed with the unions at sectoral/regional level (Kulke, 1977; Erd, 1978). Credit for this *positive wage drift* was placed institutionally in the hands of enterprise based Works Councils, reinforcing a collaborationist bias in employer-employee relations when the adversarial potential of the trade unions was subject to expansive legal constraint. As a particular capitalist regime of accumulation the model, therefore, had distinct advantages to the employers. Whilst the economy expanded it also provided sufficient reward for those workers within the system to contain discontent. The social security reforms of the late 1960s and 1970s also provided pension and unemployment benefits on a 'first resort' basis which, in comparative international terms, acted to hold together some sense of social solidarity between employer and unemployed (Esping-Andersen, 1990). In short, the relative prosperity of the (west) German worker and the continuing competitiveness of industry reinforced a consensual ideology and pushed to the margins those on the left who remained critical of the potentially debilitating effects of collaborationist trade unionism (Minnerup, 1976).

### Developing Crisis in the 1990s

Fears of the relative decline of German industrial competitiveness can be traced back a decade earlier when politicians such as Lothar Späth, former CDU minister president of Baden-Württemberg, began to articulate neo-liberal views demanding less labour market regulation and a more flexible innovation strategy which, because of its challenge to production methods and contract law, would directly threaten union interests (Späth, 1985: 218; Schabedoth, 1991). In particular the rise of Japanese and far east manufacturing in world markets where German manufacturers had previously been well placed clearly shook employers who had, until then, been able effectively to charge a premium price for quality oriented goods. Alternative 'Japanese'

Table 1: Hourly costs in manufacturing in industry in 1995 (US\$)

Country	Wages	Non-wage labour costs, including social security, pensions and fringe benefits	Total labour costs
Germany (West)	25.08	20.44	45.52
Germany (East)	16.97	12.88	29.85
Switzerland	28.03	14.66	42.69
Belgium	20.01	17.31	38.32
Netherlands	19.80	15.74	35.54
Japan	20.92	14.58	35.48
Sweden	18.31	12.82	29.85
France	15.06	13.98	29.04
United States	17.76	7.42	25.18
Italy	12.27	12.40	24.67
Canada	16.91	6.51	23.42
Spain	12.17	10.16	22.33
Australia	15.97	6.07	22.04
United Kingdom	14.96	6.00	20.96
Ireland	14.73	5.89	20.62
Greece	7.77	5.13	12.90
Portugal	5.20	4.08	9.28

Source: Deutsche Institut für Wirtschaft, Berlin

working practices, when associated with competitiveness and speed of innovation, clearly raised questions amongst German employers about both their own working practices and the relative unit labour costs of production in Germany. In the key auto industry figures for world market share illustrate the point. The four big German based manufacturers (Audi, BMW, Mercedes and VW) managed only to stabilise their world market share at just less than 10 per cent between 1984 and 1993<sup>3</sup> whilst Japanese based producers increased from 25 per cent to 31 per cent and new entrants from South Korea from 0.5 per cent to 4.75 per cent over the same period (*European Commission*, 1997). Particular attention became focused on high German wage costs, which, as Table 1 shows, were largely a result of relatively high non-wage labour costs such as social security benefits (e.g. sick pay) and pensions. Despite higher productivity unit labour costs had also increased above EU competitors and machine running times and hours worked were generally lower in Germany than in competitor nations.<sup>4</sup> Germany has also



experienced a decline in the growth of domestic demand (partly as a result of lower birth rates and partly because of higher unemployment). Most important of all, from 1980 to 1989 West Germany's rate of annual GDP growth had slipped to an average 1.9 per cent, placing it behind Britain, France, Italy, Japan and the United States. The post Unification boom after 1989 restored some degree of growth and profitability but once Unification stalled new problems emerged including a return to low growth rates, high unemployment and the need for substantial Government borrowing. A net outflow of investment has also gathered pace in the late 1990s as German firms seek to invest abroad and foreign firms balk at Germany's high labour costs (Pain and Lansbury, 1995; Deutsche Bundesbank, 1997). There is evidence to suggest (Brenner, 1998: 231) that the outward flow of investment was a response to continuing declining rates of profit in the home base. The developing crisis led in turn to low investment and lower levels of capital accumulation, thus further fuelling the economic crisis (Leaman, 1997).

Forecasts of the impending demise of Germany's industrial competitiveness can, however, be exaggerated. The country remains the second biggest exporter of goods in the world with a large trade surplus, having retained its total share of world markets with increasing successes in eastern Europe and the emerging markets of the far east. The problem has been one of stagnant rather than falling world market share and a perceived need to concentrate on price as well as quality if German industry was to survive intact. The debates over competitiveness have nevertheless provided an opportunity for sections of the employers to challenge some of the 'labour friendly' aspects of the labour relations framework. In this task they were clearly aided and abetted by the Kohl regime, who, in introducing the 1997 '50 point' programme of austerity measures, sought to alter the regulative framework in the employers' favour with provision for easier dismissals and lower non-wage costs through less sick pay provision.<sup>5</sup> The economic crisis in fact transformed itself into a crisis of labour relations as employers have sought to redefine relations of production by raising productivity and suppressing wage costs as part of their overall strategy. Such new challenges to labour are framed against the background of the creation of 4 million unemployed and a continuous stream of lay-offs and redundancies in key industries such as car manufacturing as well as the sunset mining and steel industries.

## The Employers' Offensive and the Crisis of Labour Relations

A number of changes in industrial relations within post Unification Germany provide evidence of an *orderly retreat* by employers from aspects of the co-determinative machinery that have directly threatened the interests of employees and unions. These changes have been ideologically prepared in the *Standortdebatte*,<sup>6</sup> and have been designed to reduce the likelihood of positive wage drift from the collective agreements. In some cases *negative* or downward drift has even occurred as a result of revised working arrangements and payments at the level of the enterprise or by opting out *de facto* from the sectoral collective agreement.<sup>7</sup> These tendencies have been reinforced by employers' actions in the east where a lower tier of agreements and imposition of working practices and arrangements more detrimental to labour has occurred with some significance. Organised labour has been severely challenged and caught strategically between the alternatives of continuing in the 'old way' with attempts to reach consensual agreement with the employers and maintain the productivity coalition or, to directly challenge the employers in defence of jobs and wages. The rising social inequity amongst workers, with and without jobs, has also been exacerbated by a shift from employers towards recognition of firm specific as against sector specific skills (Mahnkopf, 1992), raising the spectre of a further split between core skilled and 'peripheral' workers in the labour market and in turn further strategic dilemmas for the trade union leaderships in terms of membership orientation.

The process of capital restructuring and its effect on labour relations was always likely to be different to the British exemplar of the 1980s. In the British case the institutions of labour regulation (defined both as rules and regulations as well as established 'norms' of workplace behaviour) were historically weakly established and diverse and hence easier for employers to overturn or redefine, for example with respect to national collective bargaining arrangements. The extensive legislative attack on the unions was initiated by a Thatcher regime pursuing class interests through a direct assault on union power accompanied by a series of major union defeats. Change was aided by a constitutional system with a centralised executive and an upper House of Lords guaranteed to be tame. The checks and balances within the German system, particularly in the post

Unification period, were more constraining. MacInnes (1987) also makes the sound point that rather than altering direction the Thatcherite project *reinforced* a tradition of fragmentation and free market based short termism. In contrast in the German case change was always likely to be more contentious due to the relative institutional ‘thickness’ of co-determination and its constitutional and political importance. In particular the ideological usefulness of co-determination as a cohesive force for German employers means that challenges to consensus are likely to prove controversial amongst employers themselves. For this reason indicators of change, such as a rise in labour disputes, employer withdrawal from collective agreements, or state attempts to redefine labour or welfare legislation, become much more significant as transparent attempts to challenge the *status quo*. It is such ‘indicators of change’ that are now reviewed.

### *Changes to collective bargaining*

The argument presented in this article, from an examination of the available evidence, is that the general response of employers so far has been to push the system of collective bargaining and industrial relations to its limits rather than make a full scale attack on co-determination and its associated philosophy. This has been accompanied with attempts to ‘delegitimise’ those parts of the co-determinative framework (e.g. regulated wage agreements) that are advantageous to organised labour. This has meant a considerable offensive against labour on four fronts:

- a drive to push down direct wage costs by revising working arrangements, attacking bonus payments, shedding jobs and introducing ‘re-opening clauses’ to wage agreements
- a drift away from the discipline of peak employer organisations
- an attempt under Kohl to utilise changes in Federal legislation to reduce indirect wage costs such as sick pay and to deregulate dismissal law. Such legislation was subsequently rescinded by the new SPD-Green Coalition Government but a general commitment to reduce non-wage labour costs remains.
- the utilisation of the east as a ‘testbed’ for new working practices and agreements sometimes outside of the sectoral wage bargain.

The process of bargaining reform can be most acutely judged in the pace setting metal industry where, in June 1996, *Gesamt-*

*metall* presented a document *Reformprojekt Flachentarif* in which the employers' association proposed to reduce the scope and content of agreements as they pertained to a) percentage increases to wages, salaries and vocational training pay, b) the level of basic pay, c) working hours and holidays, d) bonus payments and e) conflict resolution procedures (including arbitration arrangements).

Secondly, in November 1997 proposals were issued to introduce company based clauses outwith the main agreements, working time 'corridors', and performance related pay. Such a decentralisation of agreements towards the company level is clearly intended by the employers to enable some level of 'organised' or regulated decentralisation as opposed to the alternative of a more unstable and unpredictable 'disorganised decentralisation' that would also run the risk of breaking up the discipline of the peak organisation. In response *IG Metall* have emphasised the primacy of the collective agreement without ruling out some provision for company level provision. In this respect both sides continue to be willing to recognise the value of co-determination but differ in terms of its interpretation and implementation at a disaggregated level. One particular point of issue remains that of 'opening clause' whereby the employers would wish to rescind the collective branch agreement on a company basis in special circumstances (similar to the 'hardship' clauses in the east). On this point, following a 500 strong Conference in November 1997, *IG Metall* are fundamentally opposed and the potential for serious conflict thus exists.<sup>8</sup> The increasing tensions within the metal sector are highlighted by the parallel call by the leaders of *IG Metall* for an 'end to modesty' in pursuing pay claims in 1998/99, reflecting a turn away from the compromising approach evident in the 1996 and 1997 pay period which were associated with the failed 'Alliance for Jobs' under the outgoing Kohl regime. Within the auto industry, as Table 2 (overleaf) shows, the employers' drive for profitability has led to substantial revision of working practices. The combination of staff cuts, financial and work restructuring and a recent fall in the value of the DM (and the sluggishness of the *Euro*) has resulted in a sharp turnaround in the profits of most of the German based auto manufacturers. Output per employee at Audi rose by 45 % between 1993 and 1996, and that of BMW, VW and Porsche has increased by more than a third (*Financial Times*, 'Germany Revs Up' 27/3/98). The 'threat' of

Table 2: Changing Work Practices in the German Auto industry

Company	Changes
<b>VW/Audi</b> (100,000 German employees)	Rescheduling of supplier contracts based on cost. Introduction of new working year contracts (the 'Working Time Shareholding System'). Shift of production to east Germany and Slovakia (VW) and Hungary (engines for Audi) Early retirement at VW Reduction of number of manufacturing 'platforms' to just 4 to cover Golf, Audi A3 and Skoda Oktavia.
<b>Opel</b>	Introduction of 'working time corridors' to match supply and demand. Holiday bonuses linked to rate of absenteeism (claims to have cut absenteeism by 50%).
<b>Daimler-Benz</b> (210,000 German employees)	Introduction of new M-class built entirely in USA. Large cuts in workforce. Flexible working time including Saturday shifts. Establishment of new 'lean' plant at Rastatt Target pricing introduced instead of post production pricing
<b>Ford</b> (34000 German employees)	More holidays in exchange for less pay. Cuts in overtime and Christmas pay. Cuts in costs equivalent to 3 per cent of turnover in 1997. Cuts in retirement pensions
<b>Porsche</b>	Japanese advisers called in to re-engineer production methods.

Source: *Financial Times*, 27/3/98, 18/11/97, 5/11/97, 28/4/97, 23.4/97;  
*Lean Production in der Automobile Industrie*, 1992.

moving production abroad has enabled the car employers to gain concessions from the unions on a number of fronts. Daimler-Benz, for example, achieved drastic changes in workforce flexibility when it finally decided after facing down the union to build its new A-class saloon in Germany rather than abroad. Similarly the works agreement at VW's plant in Zwickau in the east allows for considerably more flexibility than that at its main western plant at Wolfsburg.

In addition, there are a number of examples of the larger German firms beginning to outsource and contract out many functions and to concentrate on core activities. This, in turn,

has an effect on the 'model' as it opens up opportunities for employers to break up existing bargaining groups and collective agreements and to renegotiate new ones on terms less favourable to organised labour. Silva (1997), for example, in his survey of new employers' approaches, quotes the cases of IBM and Hoechst who have both engaged in a process of 'sector shopping' by switching some newly financially separate technical divisions away from 'metal industry' classification into other sectors and renegotiating new collective agreements with unions other than *IG Metall*.

Employers in the west have also been engaged since the 1980s in the process of *Tarifflicht* (withdrawal from collective agreements) which has acted both to weaken the discipline of the peak organisations and to create the conditions for a less cohesive and embracing 'model' of industrial relations. During the 1980s an increasing gap was observed between some highly profitable companies such as Daimler-Benz, Bayer and Hoechst and others which allowed the more profitable to grant concessions through pattern bargaining that were less affordable in other enterprises. In addition some leading firms, such as IBM and Volkswagen have traditionally remained outside of *Gesamtmetall* and have continued to do so. Finally, the onset of lean production, and the associated offloading of many risks and costs from large firms to their smaller contract suppliers, has meant that the smaller firms have less scope for matching pay agreements dominated by larger firms in their sector. Pressures to leave the umbrella of the employers' associations have thus increased and the appeal of the centralised collective bargaining framework has lessened (Gottschol, 1993). This gradual process of association weakening has thus been partly a response to increased competitive pressures and partly a response to new forms of organising work. The association 'flight' and lack of discipline in the east would clearly have exacerbated the problem. Of key significance is the weakening of the ability to impose high wage/high skill discipline on all employers and to prevent 'free riding' and wage based competition. This has been argued for a number of years to be the cementing aspect of the 'model' and so any weakening in this area would have implications for the 'model's' future.

One further indicator of employers' increasing level of unwillingness to be disciplined by the sectoral collective agreements has been the decline of 'extension agreements' whereby

collective agreements are legally 'extended' to firms outside the main peak organisation umbrellas. Within German labour law provision exists for the Labour Minister to issue a 'declaration of general applicability' (*Allgemeinverbindlichkeitserklärung*) requiring non-participating firms to enact the collective agreements so long as it (the agreement) has been signed by parties representing a majority of employees and it is deemed (by representatives of the social partners) to be in the 'public interest'. This is designed to prevent 'free-riders' and to preclude competitive strategies of employers based on low wage competition. However, figures published by the Federal Ministry of Labour in 1997 showed that between 1991 and 1997 the number of Orders had decreased from 615 in 1991 to 537 in 1994 and 391 in 1997.<sup>9</sup>

There is, therefore, some clear and substantial evidence of employers' weakening attachment to some of the more centralised and disciplined features of the co-determination mechanisms. This is not to say that all employers are willing to sacrifice membership of associations and the attached benefits of associative interest. There remain substantial advantages in maintaining collective employer cohesion, not least of which is the convenience of centralised negotiations in administrative terms (savings on personnel functions etc.), access to central strike and lock-out funds, and the continuing avoidance of over or undercutting competition based on the price of labour. The benefits of consensual approaches to the unions, as opposed to conflictual approaches, may also continue to tempt employers to stay within the association fold. Far more likely, with these caveats, is a continuation of employer efforts to attempt to redefine the parameters of co-determination in their favour through a process of 'delegitimisation' of the labour friendly aspects of the model. In this they can expect *some* level of co-operation with trade union leaders, who will also continue to benefit in social terms from a continuation of *some* form of co-determination, especially if this maintains their authority over their membership base. Such a scenario would reproduce the current situation of intensified and more bitter disputes but which are, from the trade union side, bureaucratically organised and controlled albeit on a larger and more frequent scale. In this respect the industrial relations outcome can be described as a period of 'stand-off' between employers and unions that is, nevertheless, contained within the institutional and procedural framework of the 'model'.

The capacity of the model to adapt in this situation depends on the balance between employers' success in redefining parameters to their advantage and the willingness of organised labour (at both leadership and rank-and-file level) to continue to accept and grant concessions to the employers' arguments and demands. A move by a substantial section of employers to break with the consensual approach, however, would necessarily amount to a full frontal assault on the power and privileges granted within the Basic Constitutional Law to trade unions. The outcome of this second half of the equation, that of labours' response, is a product of both material and ideological forces for change, and is a direct function of the developing consciousness of German workers. Quantitative measurement of worker consciousness is difficult if not impossible (Kelly, 1988) and is subject to interpretations of 'unevenness' (following Lukacs) and Gramscian theories of duality (see Rees, 1998). However, two important indicative signs of increasing consciousness are an increased number of disputes and a rise in unofficial action organised by rank-and-file members outside or in opposition to the control of trade union leaderships.<sup>10</sup> Whilst in the next section evidence on industrial disputes is discussed as yet there is no clear evidence of an increase in rank-and-file organisation within the unions (as existed in the 1970s). The one exception being the miners' protest in Bonn in early 1997. This is not to say that increased bitterness is not being felt, but rather that this bitterness remains channelled against employers by the trade union leaderships through official, institutional channels. Willingness to act over feelings of bitterness is, however, also a function of *attribution for blame*, and the collapse of the Employment Alliance under Kohl and the unwillingness of employers to join in a new alliance under Schröder, together with union announcements of an 'end to wage modesty' may well act to shift attribution from external events ('globalisation etc.') to employers.

#### *Industrial Disputes and Employment Alliances under Kohl and Schröder*

Table 3 (overleaf) shows the spread of industrial disputes in Germany in recent decades measured in terms of establishments affected and working days lost. As can be seen from this table the *quantitative* evidence indicates that in each of the years since Unification (the exception being the 'Employment Alliance' year of 1996) the number of establishments affected



Table 3: Strikes and Lockouts

Years (Annual average/actual)	Establishments affected (of which eastern Germany)	Working days lost (of which eastern Germany)
1950-54	1,467	1,098,126
1955-59	552	868,089
1960-64	113	483,333
1965-69	218	148,117
1970-74	486	1,251,466
1975-79	376	1,078,085
1980-84	321	1,172,065
1985-89	123	47,617
1990	777	363,547
1991	367	153,589
1992	2,466	1,545,320
1993	413 (186)	592,995 (508,737)
1994	868 (41)	229,436 (12,742)
1995	361 (13)	247,460 (16,059)
1996	200 (29)	98,135 (3,038)

Source: Statistisches Bundesamt and Bundesanstalt für Arbeit

by disputes has exceeded the average for the whole 1980s decade; has at its minimum level been close to the average of the 1970s; and has been considerably greater than the 1960s. Only in the 1950s were, on average, more establishments affected. Since 1993 the data includes eastern Germany, no pre-1989 data is available for the old GDR. If the 1990-92 data for the east had been included it would have shown a considerable increase as this was the key period in the east for post Unification disputes (Upchurch, 1995). For working days lost the evidence is less clear. A sharp rise was recorded in 1992 and days lost in the 1990s have in general exceeded the number lost in the second half of the 1980s. However, the numbers of days lost in the 1970s and through to the first half of the 1980s are still higher, although the inclusion of the eastern figures from 1990-92 may have changed the picture. Figures are not presented here for 1997, when there were a number of significant disputes in mining and the building industry, which may be reflected in an upturn in the figures for that year.

In *qualitative* terms the potential significance of the marginal but identifiable upturn in disputes is more revealing. One important development in 1996 was the creation and ensuing

collapse of the *Bündnis für Arbeit* (Employment Alliance) which was a tri-partite initiative designed preserve jobs contemporaneously with new efforts to restore economic growth. The initiative took form early in the year as Government, employers' associations and unions agreed on a proposal (framed initially by Klaus Zwickel of *IG Metall*) for unions to offer moderate wage demands in return for employment maintenance and creation guarantees. A joint statement was thus issued in January 1996 with the central aim of halving unemployment by the year 2000. Throughout 1996 the new mood of compromise could be traced in a number of new agreements which had a threefold intent:

- 1) to introduce working time measures which preserved unemployment i.e. compensation for overtime working in the form of time off (e.g. Rhineland Palatinate pilot Chemicals Agreement; western Banking Agreement);
- 2) to introduce flexible working time i.e. annualised hours and working time accounts (e.g. western Textiles and Clothing Agreement); partial retirement (e.g. Chemicals; Rubber and Banking Agreements): and,
- 3) to effect low pay increases in return for job security (e.g. Coal mining—wages and salaries unchanged for 1996; western Paper manufacturing—initial 4 month wage freeze; Metalworking—provision for companies to reduce weekly working time as an alternative to redundancies in return for wage moderation).

The willingness of the trade union leaderships to press for such deals was clearly a response to increasing unemployment throughout Germany in the period immediately following the post Unification boom, and was a sign of some considerable concession in ideological terms to the employers (H.Behrend, 1996). However, even with the background of such deals the overall Employment Alliance collapsed in March 1996 after the Kohl Government announced its 'programme for further growth and employment' which included several cuts in social benefits and some deregulation of dismissals legislation in favour of the employers.

The Kohl Government's '50 Point Programme' included many proposals from the 1993 *Standort* Report including legislation to allow employers to cut sick pay from 100 per cent

to 80 per cent of gross salary for the first six weeks off and 70 per cent for the next 78 weeks, after which state paid disability payment takes over. The 'right' to full sick pay was won in West Germany after a long and bitter industrial dispute in 1957, and as such has been regarded by unions as an integral part of the employment contract. In addition to the legislation introduced in June 1996 relaxing dismissal rules were plans to raise the retirement age for men and women to 65 from the year 2000 (from current provision of retirement at 60 for women and 63 for men). Some minor adjustments were made to health charges (e.g. prescription charges were raised by one Mark) and entitlement to free health spa treatment was reduced from four weeks to three. The programme was equivalent to a reduction of spending equivalent to 2 per cent of GDP. Outside of the 50 point programme new legislation was introduced relaxing retail trading hours and both Lufthansa and Deutsche Telekom have been privatised by the sale of Government stock.

In the context of state attempts to revise welfare provision the collapse of the 'Employment Alliance' under Kohl would seem, therefore, to indicate some difficulty in continuing a consensus based approach involving unions and employers' associations. Significantly, the coal miners dispute also showed a return to independent initiatives from rank-and-file coal miners outside the initial leadership of their union which forced a reaction from SPD leaders to broker a deal with Kohl. In most cases the employers were also forced to back down on taking the opportunity to implement the new legislation at enterprise level designed to reduce sick pay. Within the metal industry the new legislation was immediately acted upon at Daimler-Benz (outwith the industry agreement) where existing contracts were rescinded and sick pay at an 80 per cent (rather than 100 per cent) level introduced. The employer's announcement provoked an immediate response from the *IG Metall* leadership with strikes involving 100,000 workers taking place on October 1st 1996. The Daimler-Benz strikers were joined by workers from within other companies in the industry taking strike action in support, whilst 700 delegates from the public service union *ÖTV* demonstrated outside D-B's Untertuerkheim factory gates. The reaction from *IG Metall* in fact forced Daimler-Benz to back down and agree to include the issue of sick pay in the next round of wage negotiations. At Volkswagen the management announced it would honour existing contracts and not

reduce sick pay whilst at Siemens an earlier decision to implement the cuts was later reversed. Further strikes and walkouts took place on October 24th. after talks between *IG Metall* and the employers broke down. Elsewhere 187,000 workers struck in the North Rhine Westphalia industrial region and more than 400,000 staged walkouts throughout the steel and metal industry in both west and east (*Süddeutsche Zeitung*, 25 October 1996). In other sectors of the economy varying responses to the changed legislation emerged, varying from employer reluctance to impose the changes to negotiated agreements as in the banking and insurance industry whereby sick pay has been retained at 100 per cent at the expense of some other concession such as a reduction in Christmas or holiday bonus. Employers clearly suffered a setback in the sick pay disputes, and one side effect is likely to be a further questioning by sections of employers of the value of the consensus based approach.

As recognition of this division between unions and employers and between employers are the proposals for a new 'Employment Alliance' from the incoming SPD-Green Coalition Government under Schröder, which has rescinded Kohl's earlier sick pay and unfair dismissal legislation. The Schröder regime are making public statements designed to place 'consensus' back on the political map and are using the idea of a new Employment Alliance to this end, emphasising both job creation and tax reform as well as talks with unions and employers to "see consensus re-institutionalised" ('Schröder begins search for jobs consensus' *Financial Times*, 7th December 1998). Plans are also included to reduce non-wage labour costs such as social security contributions in the interests of 'competitiveness'.<sup>11</sup> However, this time round it is the employers federations who are hostile to entering a new alliance that is not based on some form of wage restraint and which includes increases in corporation taxes as a central plank.<sup>12</sup> The enforced resignation of the 'Keynesian' deputy Chancellor Oskar Lafontaine in 1998 was clearly a response to business pressure on the SPD leadership. Lafontaine's decision to resign must also be seen as an alternative to directly attempting to mobilise the SPD's left and union rank-and-file against their own leaderships. The stand-off continues, albeit this time round with the employers taking the more obstructionist position.

### *The eastern question*

The German industrial relations scene is bound to be affected by continuing problems in the east since Unification. By late 1992 it was becoming clear that the optimistic forecasts for a convergence of the eastern economy with that of the west were not going to be fulfilled. After a brief post-unification (western) boom the whole economy moved into recession. Unemployment dipped at 4.2 per cent in 1991 but rose to 6.9 per cent by the end of 1994, whilst the rate of growth of GDP peaked at 4.7 per cent per year in 1990 but then declined and recorded negative growth of 2.2 per cent in 1993.<sup>13</sup> In the east, unemployment, far from falling, has remained persistently high. In 1992 more than 2.5 million of the 8.8 million labour force were unemployed or on short time working and by 1998 (January) the rate of unemployment had actually increased over that in 1992 and was recorded at 22.4 per cent.<sup>14</sup> A direct consequence of the continuation of economic difficulty was a change in the general approach of employers towards wage equalisation. The failure of the economies to converge has led sections of employers to address the problem of lower plant productivity in the east by suppressing wage growth and creating two tiers of wage levels. The programme of wage equalisation was consequently challenged in an offensive launched in October 1992 designed to create opening clauses in existing agreements. Kohl supported the employers but at the same time made a direct approach to the unions offering a deal seeking wage moderation in the west in return for a 'pact' in the east which would effectively revise *Treuhand* policy to allow local *Land* involvement in saving threatened jobs through local subsidies. (see Sally and Webber, 1994). The pact was rejected by the *IG Metall* leadership who instead organised the first official strikes for 60 years in the east in defence of the existing wage equalisation agreements. The strikes lasted two weeks and covered more than 100 enterprises in the east and were eventually settled by an agreement with the employers to delay full wage equalisation to 1996 (rather than 1994). This was clearly a partial victory for the unions in that it showed its ability to successfully organise in the east in the face of both recession and the relative lack of strike traditions of eastern workers over the previous half century. In the wake of this dispute the employers' side moved away from further attempts to revise the wage agreement and instead concentrated on efforts to lower unit wage costs in the east by way of changes in working arrangements. The 'productivity gap' could be bridged in this way

by more intensified working in the east rather than agreement on lower nominal basic wages.

This revision of Government (and employer) policy detected from the autumn of 1992 has partly resulted from continued argument within the context of *Standort Deutschland* about low levels of productivity in the east and partly because of a distancing of many employers from the co-determination mechanism. However, there is some misrepresentation of the true picture of eastern competitiveness. Whilst average levels of productivity remain lower,<sup>15</sup> overall wage costs (despite moves towards equalisation) are also lower on an industry-by-industry comparison (Bisping, 1993a, 1993b). This is because of delay in wage equalisation, plus lower holiday entitlement and greater working hours in the east and the general absence in the east of holiday and Christmas payments paid to workers in the west. Unit wage costs, therefore, show less difference between east and west than measurement of output per head. In addition there is evidence that some new industrial plants in the east are more productive than in the west. An example of this is the Opel plant in Eisenach opened on the site of the former Wartburg works. Opel's head of production, Peter Enderle, has been quoted as saying that as a result of new production methods started in Eisenach the factory '...is now the nucleus for General Motors in Europe' (*Independent*, June 21st. 1993). Management of the plant claims that it takes just over 18 hours to make an Opel Corsa or Astra in the plant as compared to the high 20s in Bochum in west Germany and the low 30s at Zaragoza in Spain (unit wage costs are also claimed to be equal between Eisenach and Zaragoza despite lower wage rates in the Spanish plant). Elsewhere in the car industry the prospect of a shift of production to the east has undoubtedly been used as a disciplining effect on western workers in disputes over substantive issues. The 1995 pay and hours dispute at Volkswagen was marked by a statement by the Finance Director during the dispute—"The result of the negotiations will show if we can afford to produce it (the new EA 42 model) in Wolfsburg". (*The Guardian*, 9th. September 1995).

Such examples highlight the fact that some employers have applied different production and industrial relations strategies in the east to that in the west. There is evidence that employers have used the east as a 'testbed' with a view to attempting to impose revised working arrangements on their enterprises in the west. One of the outcomes of the wage equalisation disputes (primarily

in the engineering sector) was the creation of 'hardship clauses' in the wage agreements allowing the opening of agreements if both parties agreed to defer their case to a specially appointed Commission. In addition, within the construction industry, a first example exists of an agreement to formally allow companies to reduce wages by up to 10 per cent below the national agreement and to reduce the industry minimum wage for eastern based workers.<sup>16</sup> In the public sector job sharing has been introduced and changes in working time have included reductions in working hours with corresponding wage reductions and, in the teaching service, increases in teaching hours without corresponding increases in pay (Tondorf, 1995; Upchurch, 1998). In all these cases new arrangements have been imposed initially in the east, and have been subject to dispute with the unions concerned (*IG Metall*, *ÖTV* and *GEW*).

One key test for the likely introduction of new working arrangements has been the employer attitude to dealing with the key union *IG Metall*. A deal has been negotiated between an eastern based regional group of metal industry employers (*Ostmetall*) in Saxony, Saxony-Anhalt and Thuringia, with the Christian Metal Workers' Union (CGM), which introduces a wide range of new working and time arrangements. The so-called *Phönix* deal includes *inter alia*:

- variation in weekly working time between 31 and 42 hours
- annualised working hours
- long term working accounts and part time work for older employees
- performance related pay instead of seniority
- a lower rate (95%) for new entrants on probation
- profit sharing
- the opportunity to cash in up to ten days holiday for pay
- a joint dispute resolution procedure whereby consultants are utilised to establish pay trends and alongside compulsory arbitration prior to industrial action by either side.

The deal itself covers only 15000 workers in the east but is clearly meant to set agendas for future dealings with the much larger *IG Metall* and to provide an alternative collective agreement for those metal industry employers in the east not wishing to be 'closed in' by the general agreement with the larger union. The approach contained within the deal has been

rejected by IG Metall but welcomed in principle by *Gesamtmittel* who are already discussing extending the deal into west Germany.<sup>17</sup> Significantly in late 1997 *Nordmetall*, the northern based metal employers federation (from both the east and west) with 350 enterprise members, also declared that it would not be bound by the industry wide collective agreements.

Even more significantly there is evidence of a drift away from the machinery of co-determination by employers. Ettl and Heikenroth (1995) estimate that while 80 per cent of western workers are in enterprises who are members of the employers' federation, the figure in the east is 60 per cent and falling. In such instances collective bargaining between peak organisations does not take place. Furthermore, many enterprises still notionally tied to collective agreements are actually paying less than the agreed rate, and are unchallenged in this practice by unions or local *Land* administrations due to an unwillingness to upset the already precarious prospects of survival and the threat of closure (or withdrawal of subsidy). Three surveys by the DIW in 1994, the IfW (Institut für Weltwirtschaft) in 1995 and the IWH (Institut für Wirtschaftsforschung Halle) in 1996 have also shown a continued fall in eastern employer association membership as well as the emergence of separate eastern agreements. Companies owned by west German or foreign employers are more likely to be members of employers' associations than those starting up from within the east. Key statistics from the surveys show that, in 1996, only 54 % of enterprises (covering 72 % of workers) paid as much as agreed in collective agreements whilst 5 % pay more and 41 % pay less (23 % of workers). The proportion of enterprises paying less was 35 % in 1994, giving clear evidence of a downward trend and drift from the main agreement. From the employers' point of view this drift invariably marks a shift towards lower wage costs as a strategy which is possible to pursue given the weakened trade union position in the east as a result of continuingly high unemployment. It is also the case that industry is more heterogeneous in the east than the west, with a greater variety in ownership pattern and productivity, particularly when greenfield developments are compared with older eastern origin enterprises. Companies may also be wishing to use this unique set of circumstances to introduce new forms of working which, as a secondary motive can also be used as a disciplinary exemplar to employees in the west.



There is also evidence of a different approach to co-determination from the union side, with a greater distance between works councillors and union in the east than is normal in the west (Ermischer and Preusche, 1993; Kädtler and Kottwitz, 1994). This is not to say that union membership amongst works councillors in the east is any lower than in the west (in fact the case is often the reverse) but rather that the works councillors are exhibiting more intensive collaboration with management in the east primarily to ensure enterprise survival through 'survival pacts' (*Überlebenspakete*) or by creating 'unholy alliances' with employers in some of the highly profitable greenfield 'cathedrals in the desert'. Thus, whilst co-determination exists formally in the east, and the associated legal framework of *Mitbestimmung* is part of the 1990 Unification Treaty, there are signs of a fracture within employers either as a result of withdrawal or informal *de facto* avoidance of agreements. If such trends continue the question arises as to the likelihood or not of the actual survival of western style co-determination in the east, which has potential to provide a demonstration effect of things to come in the west.

## Conclusions

It is clear that German capitalism is engaged in a process of restructuring. Not only are employers introducing new working arrangements with vigour which are to the detriment of labour but also efforts abound to extensively increase exploitation by suppressing wage growth and extending working hours to boost profitability. In addition evidence exists that German capital is seeking to integrate itself more into the internationalised world economy by seeking strategic alliances and joint ventures as well as by engaging more vigorously in take-overs (e.g. BMW and Rover). Key players such as Daimler-Benz (now merged with Chrysler) and Siemens have already abandoned (or are in the process of abandoning) features of the 'stakeholder' inheritance by converting to Anglo-Saxon accounting systems and trading on international stock exchanges. The adoption of a shareholder approach is accompanied by more aggressive performance management systems which in turn are likely to upset some of the more 'solidaristic' and equity values of the German organisational culture with a greater emphasis on supply-

oriented labour market policy (Mahnkopf, 1992). Some of the key features of the 'consensus' based system, such as unified collective bargaining and employer associability are already becoming casualties of this restructuring and as a result the solidaristic low wage dispersion identified by Streeck (1997) as central to the 'model' are threatened. In fact the most recent evidence points to a new trend of disparity and social polarisation as atypical employment contracts increase in proportion and pay differentials widen for the employed.<sup>18</sup>

However, German employers are faced with a dilemma as to how much this restructuring should alter the model of co-determination which has so far given them substantial reward from organised labours' collaboration with the productivity coalition at micro-level. Similarly, the trade union leaderships, who have much to lose in authority and social status if co-determination should collapse, must choose between defending the system of collective bargaining whilst at the same time defending jobs and wages, or, to 'modernise' and intensify collaboration at the level of the enterprise in order to ensure individual enterprise survival. At the level of the rank-and-file increasing dissatisfaction is likely as the threat of unemployment remains and the 'benefits' of the consensual system are attacked or further restricted to the few. Tensions within the trade unions, already faced with membership loss, are likely as a result. As such there is no easy way forward for either capital or labour that does not entail a threat to consensus and collaboration and a turn towards more conflictual relations. The relationship between the ideological aspects of consensual industrial relations and the changes taking place in the forces of production are now full of tension. From the preceding analysis of these contradictions it is clear that change is taking place. However, the balance of forces would suggest that, for the time being at least, employers in aggregate will wish to fall short of a full frontal assault on the industrial relations aspects of the 'model, preferring, in effect, to have both their cake and eat it. Within these debates the new SPD-Green Coalition is apparently anxious to restore the consensus based aspects of the model, at least in terms of labour relations, reflecting the twin dilemmas outlined above. However, capitals' drive for accumulation dictates more aggressive agendas, and entails a continuing crisis for the model which will be fought out within more fluid and open battles between capital and labour in the foreseeable future.

## Notes

1. *Financial Times*, 29/5/98 'Turmoil and paralysis'
2. The social democratic or pluralist tradition remains dominant in industrial relations research. For example, Streeck's assessment that the model may be 'exhausted' is, from personal observation at Conferences and gatherings of industrial relations academics, commonly regarded as a *pessimistic* conclusion, implying a dominant value judgement on the desirability of the model itself.
3. This was a particularly poor performance given the opening of new 'German' markets following Unification in 1990.
4. A survey on Germany in the *Financial Times* of 25 October 1993 recorded that in 1992 the average German worked 1400 hours compared to 1900 hours in the USA and 2080 in Japan. As regards machine running times these averaged 53 hours per week in west Germany, 74 in the Netherlands and 77 in Belgium.
5. Kohl had referred to the German employment system as a 'collective leisure park' and in an interview to *Time* magazine (September 30th 1996) stated '...in football language I would now say we are playing in the World Cup. If we do not do what is necessary we will not be able to play there any more. It is that simple'.
6. The *Standortdebatte* refers to the debate surrounding Germany as a 'place of investment'. The German press and media in the last few years has been constantly referring to the 'dangers' of a flight of capital abroad due to Germany's high labour costs.
7. The revision of working arrangements at Rover under BMW ownership to abandon overtime in favour of annualised hours would be a good example of negative wage drift.
8. *eironline December 1997* 'New Proposals for Reform of Collective Bargaining in Metal Working'—T. Schulten, WSI
9. *Bundesministerium für Arbeit und Sozialordnung*: Verzeichnis der für allgemeinverbindlich erklärten Tarifverträge—Stand 1
10. A third would be increasing membership, activism and votes for left wing and labour oriented parties.
11. *Aufbruch und Erneuerung—Deutschland's Weg ins 21. Jahrhundert*, SPD-Green Coalition Agreement, 20 October 1998
12. Hans-Olaf Henkel, president of the German industry federation, has described the Government proposals as 'shocking'. ('German business balks at Schröder's "poison"' (*Financial Times*, 13th November 1998)
13. Eurostat
14. Bundesbank Monthly Reports
15. The following indicators show a narrowing productivity gap between east and west.  
 'Output per head' was 28 per cent of western levels in 1991 but 50 per cent in 1994.  
 'Wages per head' were 40 per cent of western levels in 1991 and 62 per cent in 1994.  
 'Industrial unit labour costs' were 145 per cent of western levels in 1991 and 120 per cent in 1994  
 (Commission Services, *Statistisches Bundesamt*, recorded in EC Annual Economic Report for 1995 'European Economy' No.59, 1995)

16. *eironline* July 1997 'Downward wage flexibility agreed for German construction industry'.
17. 'Ostmetall and Christian Metalworkers' Union conclude innovative package of agreements' *eironline*, June 1998
18. A 1997 Report from the WSI (*Verteilungspolitik; Chronik eines angekündigten politischen Selbstmords*-Claus Schäfer, in WSI Mitteilungen 50, No.10) finds that the number of employees in full time socially insured employment has fallen from 85% to 67% in the last 20 years and the number of 'working poor' with incomes less than 50 % of average income has increased from 10.5 % to 11.7 % between 1975 and 1990.

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## New CSE Discussion Group

A CSE discussion group is currently being set up at Cardiff University. The aim of the group will be to promote Marxist, socialist and radical ideas, debate and discussion for the 21st century. The first meeting is to be held in February 2000 (exact date and time to be confirmed). Professor John Lovering of City and Regional Planning, Cardiff University, will present a paper on globalisation and governance in Wales.

Further details can be found on the CSE website at

<http://www.gn.apc.org/cse/>

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